

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NELSON COUNTY SHERIFF

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Nelson County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$35,585 from the prior year, resulting in excess fees of \$ 114,008 as of December 31, 2007. Revenues increased by \$26,560 from the prior year and expenditures increased by \$62,145.

Debt Obligations:

Capital lease principal agreements totaled \$4,800 as of December 31, 2007. Future principal and interest payments of \$4,800 are needed to meet these obligations.

Report Comment:

- DARE Monies Shall Be Expended For Allowable Purposes Only

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Nelson County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 24, 2008 on our consideration of the Nelson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- DARE Monies Shall Be Expended For Allowable Purposes Only

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Nelson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

July 24, 2008

NELSON COUNTY
 MIKE NEWTON, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	86,294	
State Fees For Services			154,951
Circuit Court Clerk:			
Fines and Fees Collected			53,641
Fiscal Court			12,468
County Clerk - Delinquent Taxes			1,643
Commission On Taxes Collected			551,555
Fees Collected For Services:			
Auto Inspections	\$	9,840	
Accident and Police Reports		794	
Serving Papers		97,100	
Carrying Concealed Deadly Weapon Permits		7,889	115,623
Other:			
Prisoner Transport		12,931	
Highway Safety Reimbursement		2,500	
Tax Penalty Fees		48,550	
Miscellaneous		3,596	67,577
Interest Earned			1,541
Borrowed Money:			
State Advancement		252,391	
Payroll Loan		10,000	262,391
Total Revenues			1,307,684

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 MIKE NEWTON, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	405,780
Part-Time Salaries		21,852
Other Salaries		146,904
Overtime		28,702

Employee Benefits-

Employer's Share Hazardous Duty Retirement		20,161
Employer Paid Health Insurance		46,690

Contracted Services-

Advertising		3,966
Computer Maintenance		11,403
Equipment Maintenance and Repairs		434

Materials and Supplies-

Office Materials and Supplies		8,030
Law Enforcement Supplies		8,116
Uniforms		5,630

Auto Expense-

Gasoline		25,226
Maintenance and Repairs		14,200

Other Charges-

Conventions and Travel		3,476
Dues		1,340
Postage		11,910
Prisoner Transports		7,411
County Police KLEFPF Reimbursement		41,850
Miscellaneous		2,458

Capital Outlay-

Office Equipment		9,082
Vehicles		22,000
		<hr/>
	\$	846,621

Debt Service:

State Advancement		252,391
Notes		10,000
		<hr/>
		262,391

Total Expenditures

1,109,012

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 MIKE NEWTON, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Net Revenues		\$	198,672
Less: Statutory Maximum			<u>81,277</u>
Excess Fees			117,395
Less: Training Incentive Benefit			<u>3,387</u>
Excess Fees Due County for 2007			114,008
Payments to Fiscal Court - April 21, 2008	\$	113,930	
- July 8, 2008		<u>78</u>	<u>114,008</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent for the first six months and 33.87 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Nelson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Nelson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Forfeiture and Seizure Account

The Sheriff operates a forfeiture and seizure account with funds received from court-directed payments. Pursuant to Nelson County District Court Order, these receipts are to be used in drug related law enforcement. The balance at the beginning of the year was \$7,510. During the year, the Sheriff had receipts of \$4,583 and disbursements of \$8,486 leaving a balance of \$3,607 as of December 31, 2007.

Note 5. DARE Account

The Sheriff operates a DARE account with funds received from court-directed payments. These funds are to be used for Drug Awareness Resistance Education for children. The balance at the beginning of the year was \$16,777. During the year, the Sheriff had receipts of \$10,970 and disbursements of \$11,693 leaving a balance of \$16,054 as of December 31, 2007.

Note 6. Accident Reconstruction Account

The Sheriff operates an accident reconstruction account with funds received from court-directed payments. Pursuant to Nelson County District Court Order, these receipts are to be used to purchase equipment and supplies related to accident reconstruction. The balance at the beginning of the year was \$2,658. During the year, the Sheriff had receipts of \$1,500 and disbursements of \$59 leaving a balance of \$4,099 as of December 31, 2007.

Note 7. Computer Software Lease

The Nelson County Sheriff's Office is committed to a lease agreement with Customer Solutions Incorporated, for computer software. The agreement requires an annual payment of \$4,800 for a period of five years to be completed August 1, 2008. The total balance of the agreement was \$4,800 as of December 31, 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Nelson County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated July 24, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nelson County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- DARE Monies Shall Be Expended For Allowable Purposes Only

The Nelson County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Nelson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 24, 2008

COMMENT AND RECOMMENDATION

NELSON COUNTY
MIKE NEWTON, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

STATE LAWS AND REGULATIONS:

DARE Monies Shall Be Expended For Allowable Purposes Only

The Nelson County Sheriff holds money belonging to the Drug Abuse Resistance Education (DARE) program in a separate checking account. The Sheriff may expend these funds on behalf of the organization, but should not use these funds for purposes other than DARE. However, during our audit we noted that DARE funds were transferred to the fee account to meet payroll. Even though the funds were transferred back the following month, the Sheriff is not allowed to borrow funds from the DARE account. We recommend the Sheriff ask for a contribution from the Fiscal Court in the future when monies are needed to meet payroll.

Sheriff's Response: During this time, our check from state advancement have not arrived and Fiscal Court was also short on funds. The decision was may leaving a paper trail to show what was done.

